

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 EURE-00 AID-05 CEA-01 CIAE-00

COME-00 EB-08 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02

STR-04 TRSE-00 LAB-04 SIL-01 OMB-01 INT-05 GSA-01

SS-15 NSC-05 PRS-01 L-03 H-01 ITC-01 /095 W

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC PRIORITY 2862

INFO AMEMBASSY PARIS

AMEMBASSY DUBLIN

AMEMBASSY ROME

AMEMBASSY BONN

USMISSION OECD PARIS

USDEL MTN GENEVA

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E. O. 11652: N/A

TAGS: EEC, ETRD, EMIN

SUBJECT: EC DISCUSSION OF PHOSPHATE PROBLEM

REF: (A) EC BRUSSELS 394; (B) EC BRUSSELS 538; (C) OECD PARIS 2135

1. SUMMARY: COMMISSION OFFICIALS INDICATE THAT DISCUSSIONS WITH MEMBER STATES ON THE PROBLEM OF PHOSPHATE IMPORTS WERE INCONCLUSIVE. THEY BELIEVE UNILATERAL MEASURES BY THE FRENCH GOVERNMENT ARE LIKELY. THE MISSION SUGGESTS URGENT REVIEW IN WASHINGTON OF THE POSSIBILITY OF OECD CONSULTATIONS. END SUMMARY.

2. MISSION OFFICERS MET WITH COMMISSION OFFICIALS (LOERKE AND AARTS OF DG-I AND WALTER SCHAFFER OF DG-III) JANUARY 25 TO OBTAIN ACCOUNT OF COMMUNITY DISCUSSIONS OF PHOSPHATE QUESTION. SUBJECT WAS DISCUSSED JANUARY 20 IN A WORKING GROUP OF THE LIMITED OFFICIAL USE

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ARTICLE 113 COMMITTEE AND AGAIN ON JANUARY 21 IN A 113 MEETING. ACCORDING TO THESE OFFICIALS, FRANCE AND TO A LESSER DEGREE ITALY AND IRELAND, CONTINUED TO COMPLAIN OF LARGE INCREASES IN US EXPORTS OF PHOSPHATE FERTILIZERS. ACCORDING TO LOERKE, MEMBER STATES ADMIT THAT DOUBLE PRICING OF PHOSPHATE ROCK IS NO LONGER THE PROBLEM; ROCK APPARENTLY IS

AVAILABLE HERE AT PRICES CONSIDERED REASONABLE. THE ISSUE HAS BECOME ONE OF "EXCESSIVE" IMPORTS OF FINISHED FERTILIZER, IN THE CASE OF FRANCE IN PARTICULAR OFFERED AT PRICES THAT CANNOT BE MATCHED BY EUROPEAN PRODUCERS. ACCORDING TO FIGURES SUBMITTED BY THE MEMBER STATES, TOTAL EC IMPORTS OF PHOSPHATE FERTILIZERS WENT FROM 1,015,000 TONS IN 1975 TO 850,000 IN THE FIRST SIX MONTHS OF 1976 (OF THIS AMOUNT 551,000 TONS CAME FROM THE US IN 1975 AND 550,000 TONS WAS ESTIMATED TO HAVE COME FROM THE US IN THE FIRST SIX MONTHS OF 1976). FOR FRANCE TOTAL IMPORTS WENT FROM 235,000 TONS IN 1975 TO 615,000 TONS IN CALENDAR 1976 (IMPORTS FROM THE US IN 1975 WERE 202,000 TONS AND IN 1976 - 405,000 TONS).

3. AT JANUARY 20-21 MEETINGS, COMMISSION SUGGESTED THE ADOPTION OF A COMMUNITY SURVEILLANCE SYSTEM FOR PHOSPHATE IMPORTS. MEMBER STATE REACTION VARIED FROM OPPOSITION ON THE PART OF FRG, WHICH FEARED THE PRECEDENT THIS COULD ESTABLISH FOR OTHER INDUSTRIES, TO SUSPICION ON THE PART OF THE FRENCH THAT THIS MEASURE WOULD BE INSUFFICIENT TO REDUCE IMPORTS. 113 COMMITTEE FAILED TO REACH AGREEMENT IN FRIDAY SESSION AND DECIDED TO RESUME DISCUSSION IN THE MEETING SCHEDULED FOR FEBRUARY 11. IN THE MEANTIME, THE COMMISSION OFFERED TO SEND A DELEGATION TO PARIS TO OBTAIN FURTHER DETAILS ON THE PROBLEM.

4. IN INITIAL DISCUSSIONS JANUARY 21, LOERKE WAS REASONABLY CONFIDENT THAT THE FRENCH WOULD NOT TAKE LIMITED OFFICIAL USE

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UNILATERAL MEASURES IN THE NEXT FEW WEEKS. IN JANUARY 25 MEETING, HE INDICATED THAT THE SITUATION SEEMS TO BE TAKING A TURN FOR THE WORSE. THE FRENCH ARE APPARENTLY ARGUING THAT THEY ARE FREE TO ACT UNILATERALLY TO RESTRICT PHOSPHATE IMPORTS ON THE GROUNDS THAT THESE IMPORTS FALL UNDER CXT TARIFF HEADING 31.02 C WHICH IS THE ONLY HEADING IN THE CHAPTER ON FERTILIZERS WHICH IS NOT ON THE LIBERALIZED LIST. ACCORDING TO COMMISSION, THIS CONSTITUTES CLEAR MISREADING OF THE TARIFF SCHEDULE, WHEREBY SUPER PHOSPHATE FALLS UNDER TARIFF HEADING OF 31.03 AND DI-AMMONIUM PHOSPHATE FALLS UNDER 31.05.

5. COMMISSION NOW THINKS THAT FRENCH ARE ON THE BRINK OF TAKING A UNILATERAL ACTION TO RESTRICT IMPORTS. RELUCTANCE OF FRG TO GO ALONG EVEN WITH MILD ACTION PUT FORTH BY THE COMMISSION LAST WEEK MAY HAVE LED THE FRENCH TO DISPAIR OF ANY RELIEF IN BRUSSELS. ONE COURSE OF ACTION THAT COMMISSION IS NOW CONSIDERING IS TO RESORT IMMEDIATELY TO THE PROCEDURES OF COUNCIL REGULATION

1439 OF 1974 WHICH WOULD ALLOW THE FRENCH TO OBTAIN  
COMMUNITY SANCTION OF A NATIONAL MEASURE TAKEN  
BECAUSE OF AN EMERGENCY. IT WAS NOT CLEAR WHAT  
ADVANTAGE THE 1439 PROCEDURE WOULD HAVE TO AMERICAN INTERESTS;  
ITS SIGNIFICANCE WOULD APPEAR TO BE TO  
PROVIDE A COMMUNITY UMBRELLA FOR THE FRENCH MEASURES.

6. COMMISSION OFFICIALS CONTINUALLY STRESSED THEIR  
BELIEF THAT THE FRENCH PROBLEM IS A STRUCTURAL ONE  
THAT MUST BE MET BY REORGANIZATION OF THE INDUSTRY AND  
MODERNIZATION OF PLANT. NONETHELESS, THEY BELIEVE THAT  
AMERICAN EXPORTERS ARE AGGRAVATING THE SITUATION,  
PROBABLY DELIBERATELY, AS A MEANS TO GAIN  
A GREATER SHARE OF THE MARKET. THEY REPEATEDLY SUGGESTED  
THAT SOME INDICATION OF SELF RESTRAINT ON THE PART OF THE  
US EXPORTERS MIGHT STILL BE ABLE TO PREVENT GOVERNMENTAL  
INTERFERENCE IN THE MARKET. THEY SUGGESTED THAT SUCH A  
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POLICY OF SELF RESTRAINT APPARENTLY ALREADY EXISTS IN  
THE GERMAN AND BENELUX MARKETS WHERE US PRICES HAVE  
REMAINED RELATIVELY HIGH AND SALES HAVE NOT SHOWN THE  
DRAMATIC INCREASE RECORDED IN FRANCE AND TO A LESSER  
DEGREE IN ITALY AND IRELAND.

7. COMMENT: IT MAY BE ALREADY TOO LATE TO PREVENT  
UNILATERAL FRENCH ACTION. DOMESTIC PRESSURES IN THAT  
COUNTRY ARE APPARENTLY SUCH AS TO CAUSE SERIOUS  
PROBLEMS FOR THOSE WHO MAY WISH FURTHER DELAY. THE  
MISSION'S PURPOSE IN SUGGESTING OECD CONSULTATIONS  
IN EARLIER MESSAGES WAS IN PART A RECOGNITION OF  
THIS PRESSURE AND A HOPE THAT IT MIGHT BE DEFUSED  
BY INTERNATIONAL DISCUSSION IN A SEMI-PUBLIC FORUM.  
ALTHOUGH US OECD (REF C) REPORTS LITTLE ENTHUSIASM  
IN THE OECD FOR SUCH DISCUSSION, WE CONTINUE TO THINK  
THAT INITIATION OF CONSULTATIONS THERE MIGHT HELP THE  
FRENCH AND THE EC TO AVOID TAKING A PROTECTIONIST  
MEASURE TO WHICH WE WILL BE UNDER PRESSURE TO RESPOND.  
HIGH LEVEL APPROACH IN PARIS WOULD ALSO SEEM TO BE IN  
ORDER. HINTON

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